MELCOR DEVELOPMENTS LTD.

1997 ANNUAL REPORT

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Melcor Developments Ltd. is primarily engaged in the following activities:

- the acquisition, planning, development and marketing of urban communities and the subsequent sale of single family, multiple family and commercial/ industrial lots in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge and Red Deer and in Arizona;
- the ownership, development and management of commercial properties in Western Canada;
- the ownership and management of two championship golf courses in the Edmonton area including a course acquired in 1997 which is 60% owned; and
- the 50% ownership and management of a manufactured home community in Calgary.

Notice of Annual Meeting

The annual meeting of Shareholders will be held at the Drawing Room of the MacDonald Hotel, 10065-100 Street, Edmonton, Alberta, Canada on Wednesday, the 13th day of May, 1998, at 11:00 a.m. MDT

1923

Louis Timothy Melton begins selling real estate in downtown Edmonton, making sales calls on his bike. Stanley Investment Company is born.

1932

The company name is changed to L.T. Melton Real Estate Company.

1945

Louis Timothy's eldest son, Stan returns from the war and joins the Company as a salesman.

This brochure of the late 1940s advertises prime river valley lots near Laurier Park (west Edmonton) for $800.

"A profitable investment," the text accurately predicts.

Seventy-five years ago, when he opened the first office of the Stanley Investment Company, Louis Timothy Melton could scarcely have envisioned what the company was to become. From that office, a small house where Edmonton Centre now stands, Timothy travelled by bicycle to visit his customers, helping many young couples to buy their first homes in the city's west end. A five-dollar down payment and five dollars a month was enough to pay for a 100-dollar lot in 1923. Families often lived in tents on their lot while the house was being built.

In 1932, Timothy changed the company name to L.T. Melton Real Estate Broker and relocated to the area just west of Edmonton that would become Jasper Place.

The eldest of Timothy's three children, Stan, returned from World War II with a wife, Peggy and a baby named Tim, and put his plans of starting a farm aside to join the company as a salesman. Stan and his family moved into a house in the city's west end and worked at the downtown office where the Melton Building remains today.

Six years later, Stan purchased the firm and carried on his father's philosophy of growth and dominance in the real estate industry through enthusiastic leadership.

Stan capitalized on Edmonton's dramatic growth in the 1950s. He established 16 offices throughout the city. Each office provided specialized service in its designated neighborhood. Under Stan's professional management system, the renamed Melton Real Estate Ltd. offered key employees the opportunity to buy shares in the company and became a fully integrated real estate company.

In 1956 the company opened the first of several offices in Calgary and others in Red Deer and Vancouver soon followed. Subsidiary companies undertook land development operations in south and west Edmonton and in the Forest Lawn district of Calgary.

Melton Real Estate became a public company in 1968 and was listed on the Vancouver Stock exchange. Four years later, it listed its shares on the Toronto Stock Exchange.

Housing prices rose at an unprecedented rate in the early 1970s and Melton Real estate rode the crest of this growth to become western Canada's leading real estate broker. In the midst of this growth and at the height of his business life, Stan Melton died in 1973. Cliff Willetts was appointed chairman of the Board and executive vice-president Garry Holmes became president.

The cars parked beneath lend scale to this huge billboard, which proclaims: "Organized for Service... Specialized for Value."

Tim Melton followed in his father's and grandfather's footsteps when he was elected president in 1975. The company changed its name to Melcor Developments Ltd. when it sold its real estate brokerage to A.E. LePage of Toronto in 1976.

Melcor Developments Ltd. focused on residential and commercial land development to ensure the best rate of return and growth potential for its shareholders.

A strategic expansion to the south-western United States in the early 1980s saw the company acquire properties in Phoenix and Tucson, Arizona, and in San Bernardino County, California, which were developed into master-planned communities.

The company continued acquiring lands for future development, including the major developments of Arbour Lake in northwest Calgary and Lewis Estates in west Edmonton.

Through its family virtues and ability to adapt to the ever-changing real estate marketplace, Melcor has remained successful through three-quarters of a century. The dedication and integrity of its people and their vision of its future has poised Melcor to take on the new millennium.

L.T. Melton Real Estate's Whyte Avenue office in Edmonton. The Strathcona Hotel and post office building are visible in the background.

The 1948 Christmas Party at the "Office of Organized Service." Stan Melton is right of centre.

1951

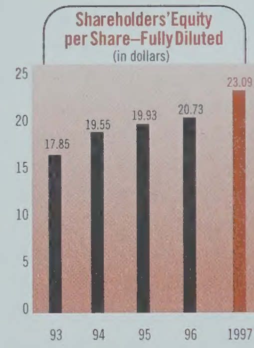
Stan Melton buys the Company and becomes president

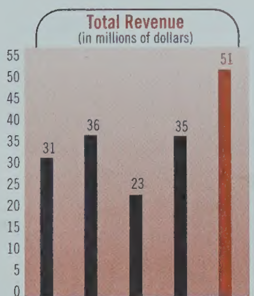
This Melton brochure from the early 1950s evokes memories of the day's prices. The bungalow shown sold for $11,579, with $74 (IPT) monthly payments!

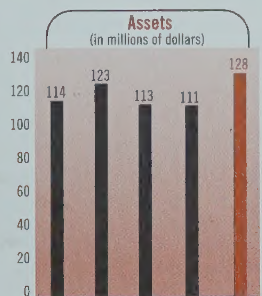
"Call a Melton Man and Start Packing," was the memorable (if politically incorrect today) slogan used for 23 years. Here, a decal of the 1950s carries a 5-digit telephone number.

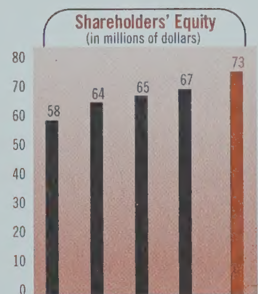
Financial Highlights

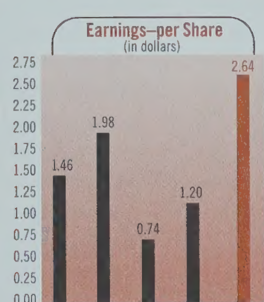
($)	1997	1996
Total revenue	51,210,000	34,584,000
Net earnings	8,502,000	3,854,000
Cash flow from operations before working capital changes	11,407,000	4,529,000
Shareholders' equity	73,499,000	67,336,000
Assets	128,042,000	111,229,000
Per Share		
Earnings from continuing operations	2.66	1.24
Basic earnings	2.64	1.20
Fully diluted earnings	2.64	1.19
Cash flow from operations	3.54	1.41
Fully diluted cash flow from operations	3.54	1.40
Dividends	0.50	0.40
Common shares outstanding	3,183,203	3,214,803

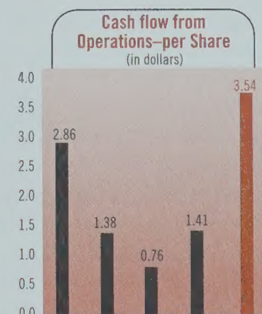












Located on the historical James Gibbons Property, this Melton brochure advertised that "when you build in Lynnwood, you will own a bit of Edmonton history".

Perhaps the same could be said of owning Melcor shares now.

1956

The first of several Calgary offices is opened, as Melton Real Estate goes on to become the city's dominant realtor.

The familiar slogan was used on many billboards. Here, calling a Melton Man is the "first step to your own home."

1968

Melcor Developments Ltd's first board of directors as a public real estate company.

1973

Stan Melton, shown earlier that year at West Dalhousie near Calgary, dies. Garry Holmes becomes president.

Lewis Estates Golf Course and residential area

On behalf of the board of directors, I am pleased to report that 1997 was the best year for the company since 1990. Net earnings for the year ending December 31, 1997 were $8,502,000 or $2.64 per share compared with $3,854,000 or $1.20 per share in 1996.

Cash flow from operations was $3.54 per share compared with $1.41 per share in the prior year. Positive cash flow and adequate reserves of working capital are important elements for real estate development and the Company has been successful in meeting its objective of increased cash reserves for greater financial stability.

Total revenue was $50,589,000, a 49% increase over 1996 revenue of $33,964,000. The increase in revenues is attributable to increased sales recorded by the company's land development division.

The Alberta advantage continued to provide buoyant economic conditions with growth rates that lead the nation. The company was able to respond to the increased demand for housing through the sale of 704 residential lots compared with 470 lots in 1996. Twenty-six communities representing 762 lots were planned, developed and marketed during the year.

A higher level of sales activity produces increased earnings but depletes the inventory of land held for future development. The board and management are most aware that future growth and earnings are dependent upon ensuring the company has an adequate land bank. An objective in our 1997 business plan, to acquire well located land parcels on which development will commence within three years, was achieved. During the year, twelve land purchase contracts were negotiated representing 1,049 acres at a cost of $16,771,000 of which seven contracts for 598 acres ($8,267,000) closed in 1997 and the balance have closed or will close in 1998.

Significant acquisitions and developments were:

Edmonton Region

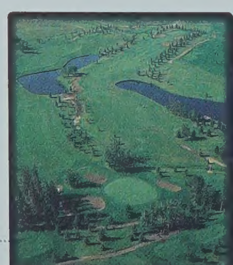
A major commitment to this market was made by the purchase of a 60% interest in the Lewis Estates community in west Edmonton comprising 470 acres of land for development and an eighteen hole championship golf course that was designed and built as an amenity for the community. As managers we have initiated improvements to the golf course and have three new residential subdivisions under development.

In north east Edmonton we commenced development and sales in the Miller neighborhood on 49 acres.

Development and sales in the Bridgeport community in Leduc commenced in 1997 on 125 acres purchased in December 1996. An additional 134 acres of adjoining land are under option.

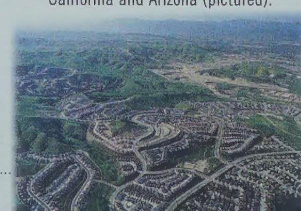
In January 1998, we acquired 159 acres in south west Edmonton, adjacent to other developments, on which

1975
Tim Melton, Stan's son, is elected president.



1983
Opening of the Links at Spruce Grove.

In the early 80s, land is acquired and developed in California and Arizona (pictured).



1984
Downtown Edmonton office building known as 44 Capital Boulevard is erected.

we will commence development of residential subdivisions in 1999.

Calgary Region

In 1997, we acquired 84 acres in Airdrie. Subsequent to year end, we acquired 74 acres in north Calgary and a 50% interest in 240 acres in Chestermere, a town five miles east of Calgary. Development of a master planned community at Chestermere will commence in 1999.

Red Deer Region

This continues to be a good market for the company. In 1997, we developed five subdivisions and acquired 185 acres in the south east quadrant of the City on which development will commence in 1999.

Although the acquisition of land continues to be an objective, the challenge will be more difficult this year as buoyant economic conditions have resulted in speculation and strong competition in the land market. Our strategy will continue to focus on purchase opportunities for immediate or near term development.

Melcor's income property portfolio had a year of improved earnings. Stronger economic conditions in Alberta are translating into higher lease rates and an increase in occupancy levels is projected for 1998.

Other operations, which are The Links Golf Course in Spruce Grove, our 60% interest in Lewis Estates Golf Course (which was acquired in November 1997) and our 50% interest in Watergrove Manufactured Home Community in Calgary, had increased earnings in 1997.

Dividends to shareholders totalled $.50 per share in 1997 compared with $.40 per share in 1996. The board of directors believes that it is appropriate that shareholders receive a return on their investment through dividend income.

1998 is a milestone year for the company marking its 75th anniversary. Melcor Developments Ltd., formerly Melton Real Estate Ltd., was founded in 1923 by Louis Timothy Melton who started the company as a small real estate brokerage business servicing primarily Edmonton's west end. After returning from World War II military service in 1945, Stanley Louis Melton acquired the firm from his father. The post war period brought growth and expansion of the company throughout western Canada.

75 YEARS 1923-1998

Under Stan's leadership, the company prospered and diversified into a fully integrated real estate company. In order to offer employee ownership and increase capitalization, the company became a publicly traded entity in 1969. Stan Melton died in 1973 in the prime of his business life but his vision and the commitment to the company was capably carried on by dedicated managers, employees and directors.

The company's longevity and growth results from its ability to adapt to changing market conditions. Melcor is proud of its record of success and acknowledges the outstanding contribution of all those who guided and worked for the organization over the past 75 years. We believe our strength and the reason for success has been and will continue to be our people.

The outlook for Alberta remains positive and we expect 1998 will be another good year for the company. Our record of past performance combined with the financial strength of our organization are reasons to be confident for a bright future for the company.

T.C. Melton
Chairman and C.E.O.
March 19, 1998

1991

Arbour Lake in northwest Calgary opens.

1995

Watergrove, a 308-unit manufactured home community, is built with the clubhouse amenity featured below.

1997

Bridgeport, a Leduc community, opens. Here, construction of the bridge at the community's entrance.

1997

Acquisition of Lewis Estates, including a residential development and Melcor's second 18-hole golf course.

Corporate Overview

Melcor Developments Ltd., which traces its history back to 1923, has been a public company since 1968. Its diversified operations which are carried out through the Company, wholly owned subsidiaries and joint ventures, include:

- the acquisition, planning, development and marketing of urban communities and the subsequent sale of single family, multiple family and commercial / industrial lots in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge and Red Deer and in Arizona which are developed by the Company from raw land which it holds for future development;
- the ownership, development and management of commercial properties in Western Canada;
- the ownership and management of two championship golf courses in the Edmonton area including a course acquired in 1997 which is 60% owned; and
- the 50% ownership and management of a manufactured home community in Calgary.

Review of Operating Results

Net earnings for the year were $8,502,000 or $2.64 per share, a 121% increase over 1996 earnings of $3,854,000 or $1.20 per share. Revenue increased by 49% from $33,964,000 in 1996 to $50,589,000 in 1997.

The increase in revenue and net earnings was due to the substantial increase in land sales, including a 50% increase in single family lot sales and a 105% increase in multi-family, industrial and commercial sites. Single family housing starts in Alberta increased by 40% (1996 - 34%) in the same period.

Land Development

The land development division is responsible for the acquisition, planning, development and marketing of urban communities. Although the division predominantly develops mixed use residential communities, it also develops large scale commercial and industrial centers in several locations. Residential lots and parcels are marketed through selected home builders who purchase sites through agreements payable within one year of sale.

Land sales

The number of residential lots sold in 1997 increased by 50% over 1996 sales. All regions, except Lethbridge, increased their number of lots sold as set out in the following table.

	1997 Total Sales	1997 Less: Interest of Joint Venture Participants	1997 Net Company Sales	1996 Net Company Sales
Edmonton	232	61	171	92
Spruce Grove	74	—	74	39
Red Deer	160	48	112	45
Calgary	373	81	292	268
Lethbridge	27	12	15	22
Arizona	40	—	40	4
	906	202	704	470

With the increased demand in 1997, twenty-six subdivisions were developed compared with sixteen in 1996. Multi-family and commercial land sales were 17 acres ($7,142,000) in 1997 compared to 4 acres ($3,490,000) in 1996. We also sold 33 acres of undeveloped land (1996 - 134) pertaining to land which did not meet the Company's criteria for development.

The following tables illustrate the level of activity in our inventory:

Residential Lot Inventory (excluding multi-family)	1997	1996
At beginning of the year	365	482
New developments	762	353
Sales	(704)	(470)
At end of the year	423	365

Land Inventory (in acres)	1997	1996
At beginning of the year	3,665	3,743
Purchases	598	152
Sales	(33)	(134)
Developed	(169)	(96)
At end of the year	4,061	3,665

Land Acquisitions

The acquisition of land for future development is based upon our anticipation of market demand and development potential within three years. Land purchases during the year were:

- 283 acres in west Edmonton;
- 46 acres in south Edmonton;
- 184 acres in Red Deer; and
- 85 acres in Airdrie.

Risk Factors

Residential lot sales are influenced by the demand for new housing which is impacted by interest rates, growth in employment, immigration, new family units and the size of these units. Our ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations which affect the planning, subdivision and use of land. The lengthy planning and approval process can take up to eighteen months. During this period, the market conditions in general and / or the market for lots in the size and price range in our development, may change dramatically.

We attempt to mitigate these risks by:

- developing in the major population and employment centres in Alberta where we have developed land for decades;
- marketing lots in various sizes and price ranges in all regions in which we carry on development programs;
- monitoring market conditions by maintaining close contacts with our customers, industry associations and forecasting agencies;
- managing and participating in joint ventures;
- contracting professional consultants as required rather than having them on staff; and
- financing developments through project loans from several lenders.

Commercial Properties

The Company owns and manages a portfolio of commercial properties listed on page 19 of this annual report. Divisional earnings before intersegment eliminations were:

($)	1997	1996
Rental and other operations	148,000	(75,000)
Land sales	389,000	697,000
Valuation adjustment	—	(430,000)
Total segment earnings	537,000	192,000

The increase in earnings from rental and other operations is primarily due to decreased property taxes.

Commercial Properties sold their interest in two 9 acre commercial sites in south east Calgary. One sale closed in 1997 and one sale closed subsequent to the year end.

(in square feet)	Leasable Area	Decrease in Net Leased Area in 1997	Unleased Area 1997	Unleased Area 1996
Office and multi use	305,900	(23,400)	71,800	48,400
Retail	53,000	(1,200)	2,400	1,200
	358,900	(24,600)	74,200	49,600

The increase in the unleased area is due to the loss of a tenant at a multi-use building in November 1997 who was leasing 31,000 square feet. The vacancy rate for our Melton and Westcor buildings decreased from 23% to 20% at December 31, 1997 and to under 14% during the first quarter of 1998.

Leases Maturing (in square feet)	1998	1999	2000	2001	2002
Office and multi use	19,600	41,600	77,000	16,500	30,300
Retail	15,400	4,400	6,600	8,100	12,700
	35,000	46,000	83,600	24,600	43,000

Other Operations

Other revenue and earnings are from:

- Watergrove Developments Joint Venture (50% interest) which owns a 308 unit manufactured home community in north west Calgary;
- The Links at Spruce Grove, an 18 hole golf course, which recorded net earnings for the eleventh consecutive year; and
- Lewis Estates Golf Course in Edmonton, an 18 hole course of which a 60% interest was acquired in November 1997.

Note 7 to the consolidated financial statements sets out our net investment in the manufactured home community and golf courses.

Housing

Housing operations, which are reported as discontinued operations in the consolidated financial statements, were discontinued because the return on investment had not been satisfactory.

Revenue in 1997 was $6,560,000 with a pre tax loss of $144,000 compared with 1996 revenue of $7,668,000 and a pre tax loss of $262,000.

Unit Sales	1997	1996
Condominium	51	55
Single family	1	7
	52	62

Assets

The net book value of the Company's assets were $128,042,000 at the end of 1997 compared with $111,229,000 at the end of 1996. Note references below are to the consolidated financial statements.

- Cash increased by $10,175,000 due to the increase in business activity and due to the proceeds from the renewal of the term loan.
- Agreements receivable (Note 3) are the balances due from the sale of developed land. The increase in land sales and the sale of a commercial site in 1997 increased the total by $3,446,000 compared with the 1996 total.
- Land is classified as land under development (Note 4) at the time that plan registration has been completed. In 1997 there were twenty-six new residential subdivisions with 762 lots compared with sixteen new subdivisions with 353 lots in 1996. Single family lot inventory increased from 365 lots to 423 lots at December 31, 1997. All housing under development has been sold in 1997 whereas 1996 included $4,010,000 in housing under development.
- Land held for future development (Note 5) has no development of infrastructure on the lands. Other work such as obtaining regulatory approvals for development, planning and engineering may be ongoing.

Liabilities

Liabilities increased from $43,893,000 at the end of 1996 to $54,543,000 at the end of 1997. The major changes in liabilities include:

- Accounts payable and accrued liabilities increased by $3,404,000 primarily due to the high volume of development activity in the fourth quarter.
- The bank term loan (Note 8) was renewed in 1997 and the revolving term loan credit was eliminated. The remaining loan balance will be repaid in 30 equal monthly installments beginning in February 1998.
- Debt on land held for future development (Note 10) increased from $3,858,000 to $7,902,000 due to financing on land purchased during the year.
- Future income taxes (Note 13) increased by $2,249,000 due to an increase in temporary differences between accounting and taxable income.

Year 2000

The Company has one accounting subsystem relating to residential property management that cannot be made to be year 2000 compliant and may not function at January 2000. The other systems are also at risk that they may not function satisfactorily.

The Company is undertaking a major upgrade to its information systems in 1998 which will significantly update its overall functionality, incorporate a higher level of inter-branch and customer communications and will be designed to eliminate the risk of enduring any year 2000 issues. Management expects to complete the testing and conversion of all systems by December 31, 1998.

Risk

The nature of the Company's business, along with 92% of our assets being located in Alberta, could make the Company subject to greater risks than companies that are more geographically diversified. However, management believes that the economic outlook for Alberta is favourable and the population will continue to increase. The Company intends to continue its conservative policies on acquisitions and developments and has an environmental program in place to minimize risk to the Company on acquisitions and developments.

Liquidity and Capital Resources

The Company has an ongoing requirement for capital to finance the development of its residential subdivisions. During the year $15,594,000 in project financing was arranged from five lenders for thirteen developments compared with $8,315,000 from four lenders for ten developments in 1996. Each loan is a first charge on the development and will be repaid from the proceeds of sales from the development. The Company requires minimal equity for new developments as generally all development and carrying costs are financed.

At December 31, 1997 the Company had $9,800,000 (1996 - $4,200,000) in approved and undrawn project loans to cover the provision for development costs in the land division. Of this amount $4,830,000 could have been drawn at December 31, 1997.

The Company's debt to equity ratio was 0.74:1 at December 31, 1997 and 0.65:1 at December 31, 1996.

Management believes that with the projected level of operations for 1998 and our minimal capital commitments, the Company will have sufficient capital to fund its operations.

Outlook for 1998

The Company's Business Plan for 1998 is based upon the following assumptions:

- the Canadian economy will continue to strengthen with economic growth in Alberta higher than the national average;
- the population of Alberta will continue to increase;
- interest rates will remain near current levels throughout the year; and
- the residential new housing market in Alberta will be similar to 1997.

The board of directors of Melcor Developments Ltd. is responsible for the protection and enhancement of shareholder value through a number of measures including:

- the adoption of a strategic plan and an annual budget;
- assessing the performance of the Chief Executive Officer and senior management towards the achievement of the strategic plan and annual budget;
- the annual identification and management of the business risks of the Company;
- senior management succession planning;
- ensuring that shareholders receive timely, accurate and meaningful reporting of periodic financial and operating results and significant corporate activities; and
- regular reporting by management of the Company's financial and operating performance measured against budgets and plans.

During the year ended December 31, 1997, the board held four regular quarterly meetings, one budget and planning meeting and three special meetings to consider land development acquisitions.

For the 1997 fiscal year, the board was composed of eight directors, consisting of four unrelated and independent directors, and four related directors, of which three were members of management. One member of management (Timothy C. Melton, Chairman and Chief Executive Officer of the Company) and one related director (Andrew J. Melton) are members of the Melton family who collectively control approximately 49.2% of the total outstanding shares of the Company.

The board of directors has established two committees of the board – corporate governance and compensation, and audit – which report to the board. The committees have written terms of reference which are reviewed on an annual basis.

The corporate governance and compensation committee consists solely of the four unrelated directors. The committee is responsible for ensuring that effective corporate governance practices and procedures are in place and functioning within the Company. The committee is also responsible for reviewing and recommending to the board officers' salaries, directors' compensation, the general salary structure of the Company and all employee benefits including stock plans and incentive bonus arrangements. The committee held four meetings during fiscal 1997.

The directors have determined that the Chief Executive Officer is the most appropriate person to serve as Chairman of the board at this time. The board believes that the establishment and composition of the corporate governance and compensation committee and its terms of reference allow it to function independently of management.

The audit committee consists of three unrelated directors and is responsible for approving, monitoring, evaluating and making recommendations on all matters affecting the external audit, financial reporting and accounting control policies and practices of the Company. The committee meets periodically with the external auditors without members of management being present. During 1997, the committee met five times.

Board approval is required for real estate transactions, loan guarantees and advances which exceed established dollar limits. In addition, the declaration of dividends and all transactions outside the normal course of business require the prior approval of the board.

The board expects management to prepare an annual strategic business plan and budget for the review and approval of the board and to meet or exceed the approved operating plans. In addition, the board expects the Company to conduct their activities in accordance with good environmental and business ethical practices.

Shareholders are encouraged to provide their comments and concerns at the annual general meeting of the Company and through written communications as required. All such communication from shareholders are reviewed and considered by the board.

The board and management of the Company will continue to further develop and implement its corporate governance policies and practices as appropriate.

Consolidated Statement of Earnings and Retained Earnings

For the years ended December 31 ($000s)	1997	1996
Revenue	50,589	33,964
Cost of sales	(29,785)	(22,096)
	20,804	11,868
Interest income	621	620
Interest expense (Note 16)	(1,420)	(1,551)
General and administrative expenses	(4,499)	(3,438)
Earnings from operations	15,506	7,499
Asset valuation adjustment	—	(430)
Earnings from continuing operations before income tax expense	15,506	7,069
Income tax expense		
Current	4,706	3,471
Future	2,219	(396)
	6,925	3,075
Earnings from continuing operations	8,581	3,994
Loss from discontinued operations (Note 19)	(79)	(140)
Net earnings for the year	8,502	3,854
Retained earnings, beginning of the year	59,804	57,249
Dividends	(1,605)	(1,299)
Premium on purchase of common shares for cancellation	(939)	—
Retained earnings, end of the year	65,762	59,804

Earnings per common share (Note 20)		
Basic — from continuing operations	2.66	1.24
Basic — net earnings per share	2.64	1.20
Fully diluted — net earnings per share	2.64	1.19

As at December 31 ($000s)	1997	1996
ASSETS		
Cash and short term deposits	12,080	1,905
Accounts receivable (Note 2)	3,692	2,001
Agreements receivable (Note 3)	21,850	18,404
Land and housing under development (Note 4)	25,426	29,875
Land held for future development (Note 5)	43,271	37,778
Commercial properties (Note 6)	14,741	14,953
Other assets (Note 7)	6,982	6,313
	128,042	111,229
LIABILITIES		
Accounts payable and accrued liabilities	6,635	3,231
Current income taxes payable	999	969
Bank term loan (Note 8)	3,000	896
Provision for real estate development costs	5,338	6,110
Debt on land and housing under development (Note 9)	6,279	6,507
Debt on land held for future development (Note 10)	7,902	3,858
Debt on commercial properties (Note 11)	9,502	10,306
Debt on other assets (Note 12)	4,676	4,053
Future income taxes (Note 13)	10,212	7,963
	54,543	43,893
SHAREHOLDERS' EQUITY		
Share capital (Note 14)	6,883	7,028
Retained earnings	65,762	59,804
Currency translation adjustment (Note 15)	854	504
	73,499	67,336
	128,042	111,229

SIGNED ON BEHALF OF THE BOARD

PER ______________________ Director

PER ______________________ Director

For the years ended December 31 ($000s)	1997	1996
Cash provided by (used in) operating activities		
Net earnings for the year	8,502	3,854
Non cash items:		
Depreciation and amortization	656	670
Future income tax expense	2,249	(425)
Asset valuation adjustment	—	430
	11,407	4,529
Increase in agreements receivable	(3,446)	(7,402)
Development activities (Note 22)	6,223	8,209
Change in other operating assets and liabilities (Note 22)	751	(128)
Currency translation adjustment	350	37
	15,285	5,245
Cash provided by (used in) investing activities		
Purchase of land held for future development	(8,267)	(1,112)
Development of manufactured home community	—	(343)
Commercial property lease inducements	(121)	(65)
	(8,388)	(1,520)
Cash provided by (used in) financing activities		
Bank term loan	2,104	(2,147)
Increase in debt on land held for future development	4,044	(1,849)
Repayment of debt on commercial properties	(804)	(633)
Increase in debt on other assets	623	798
Dividends	(1,605)	(1,299)
Shares (cancelled) / issued	(145)	11
Premium on purchase of common shares for cancellation	(939)	—
	3,278	(5,119)
Increase (decrease) in cash and short term deposits during the year	10,175	(1,394)
Cash and short term deposits, beginning of the year	1,905	3,299
Cash and short term deposits, end of the year	12,080	1,905

1. Accounting Policies

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a Basis of Consolidation

These consolidated financial statements include:

- i The accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies (the "Company"):
  - Melcor Developments Arizona, Inc.
  - Melcor Homes Inc.
  - Melton Real Estate Inc.
  - Stanley Investments Inc.
- ii Investments in joint ventures which are accounted for using the proportionate consolidation method.

b Recognition of revenue

Revenue is recognized as follows:

- i Sale of land - when a minimum of 15% of the sale price has been received and the sale is unconditional.
- ii Sale of residential units - when the purchaser is entitled to possession and the closing funds have been received by the Company.
- iii Rental of commercial properties - after the property is initially constructed or acquired and has reached a 75% level of occupancy, subject to a reasonable period dependent upon the size of the project. Prior to achieving this level, rental revenue and operating costs are capitalized as part of the cost of the project.

c Capitalization of costs

The Company capitalizes all direct costs relating to land held for future development and land and housing under development projects. In addition, carrying costs such as interest on debt specifically related to the project, property taxes and interest on general debt considered applicable to the investment in the project are capitalized. Where the net realizable values of specific properties held for development do not exceed their capitalized carrying value, any additional interest and carrying costs relating to the properties are charged to current operations and are not capitalized. Administrative overhead expenses are not capitalized.

d Land and housing under development

- i Land and housing under development is recorded at the lower of cost and net realizable value.
- ii The total estimated carrying, servicing and development costs (net of recoveries) are recorded as a liability at the time that plan registration has been completed. The unexpended portion of these costs is shown as "Provision for real estate development costs" on the balance sheet. Whenever the estimate is known to be materially different from the actual costs incurred, an adjustment is made to the liability with a corresponding adjustment to cost of sales and land and housing under development.
- iii The total costs of a project are allocated to individual lots sold on the basis of anticipated selling price.

e Land held for future development

Land held for future development includes the undeveloped land cost, the capitalized carrying costs related to holding the land and those development costs that have been incurred prior to the land being transferred to land and housing under development. Land held for future development is recorded at the lower of cost and net realizable value. The cost of land and carrying costs are transferred to land and housing under development on a prorated acreage basis to each phase of a project at the time that plan registration has been completed.

f Commercial properties

Commercial properties are recorded at the lower of cost less accumulated depreciation and net recoverable amount. Buildings are depreciated using the sinking fund method based upon an estimated useful life of 38 to 45 years.

g Other assets

Those capital assets, which are included in other assets, are depreciated using the declining balance method of depreciation, over their estimated useful life, at rates from 4% to 30%.

h Income taxes

Effective January 1, 1997 the company adopted the recommendations of Section 3465 of the Canadian Institute of Chartered Accountants ("CICA") handbook. The adoption of CICA 3465 did not have a material effect on the company's consolidated financial position or results of operations. Under the asset and liability method of accounting for income taxes, future tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

i Foreign currency translation

The Company's foreign operation is of a self-sustaining nature. Assets and liabilities of the foreign operation are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. Gains or losses on translation are shown as a separate component of shareholders' equity.

2. Accounts Receivable

Prior year accounts receivable included $291,000 of interest free loans granted to certain officers and key employees to acquire First Preferred Shares of the Company under the terms of the Incentive Share Purchase Plan. These loans were repaid during the year.

3. Agreements Receivable

Agreements receivable are due within one year except for $8,806,000 which is due in 1999. These receivables earn interest at prime plus 1% and are secured by the specific real estate sold. Agreements receivable relate primarily to land sales in Alberta which are subject to the related economic conditions of that region.

4. Land and Housing Under Development

($000s)	1997	1996
Land under development	25,426	25,865
Housing under development	—	4,010
	25,426	29,875

5. Land Held for Future Development

($000s)	1997	1996
Land and carrying costs	37,562	29,683
Pre development costs	5,709	8,095
	43,271	37,778

6. Commercial Properties

($000s)	1997	1996
Revenue producing properties	17,238	17,238
Accumulated depreciation	(2,704)	(2,467)
	14,534	14,771
Lease inducements (net)	207	182
	14,741	14,953

7. Other Assets

($000s)	Cost	Accumulated Depreciation	1997 Net Book Value	Cost	Accumulated Depreciation	1996 Net Book Value
Manufactured home community and related assets	3,259	82	3,177	3,262	44	3,218
Golf course and related assets	4,550	1,623	2,927	3,332	1,507	1,825
Land	—	—	—	127	—	127
Buildings	284	5	279	554	5	549
Equipment and vehicles	16	15	1	18	14	4
Computerware and furniture	820	651	169	898	640	258
	8,929	2,376	6,553	8,191	2,210	5,981
Sundry assets			429			332
			6,982			6,313

8. Bank Term Loan

($000s)	1997	1996
Bank term loan principal	3,000	4,618
Revolving term loan credit	—	(3,722)
Bank term loan	3,000	896

The bank term loan, which bears interest at prime plus 1.5% per annum (7.5% at December 31, 1997) was renewed in 1997 and is repayable in 30 monthly payments of $100,000 beginning February 1998.

Collateral has been pledged in the form of specific agreements receivable and specific lot inventory.

9. Debt on Land and Housing Under Development

($000s)	1997	1996
LAND		
Project loans maturing in 1998-1999 with interest at prime plus 1% (7% at December 31, 1997)	6,279	4,593
HOUSING		
Agreements payable on lot inventory	—	111
Mortgage advances on construction in progress	—	1,803
	—	1,914
	6,279	6,507

Specific real estate, an assignment of insurance proceeds, a general assignment of agreements receivable and specific development agreements have been pledged as collateral for the above debt.

Principal payments due are as follows:

1998	$ 5,714,000
1999	565,000

10. Debt on Land Held for Future Development

($000s)	1997	1996
Agreements payable maturing in 1998-2007 with interest varying from prime plus 1.5% (7.5% at December 31, 1997) to fixed rates (5% to 7%)	7,791	3,757
Accrued interest	111	101
	7,902	3,858

Specific land held for future development has been pledged as collateral for the above debt. The current weighted average interest rate, based on year end balances, is 6.7% (1996 - 6.4%).

Principal payments due within each of the next five years are as follows:

1998	$ 1,338,000
1999	1,365,000
2000	1,597,000
2001	974,000
2002	1,030,000

Principal payments in excess of the amounts due may be made in order to obtain title, if title is required to initiate development of the land.

11.Debt on Commercial Properties

($000s)	1997	1996
Mortgages (maturing 1998 - 2002) with interest at fixed rates varying from 7.32% to 10.5%	9,502	10,306

Commercial properties disclosed in Note 7, assignment of rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average interest rate at December 31, 1997, based on year end balances, is 9.6% (1996 - 9.6%).

Principal payments due within each of the next five years assuming renewal at similar terms are as follows:

1998	$ 659,000
1999	720,000
2000	787,000
2001	791,000
2002	512,000

12. Debt on Other Assets

($000s)	1997	1996
Mortgage on manufactured home community amortized to October 1, 2016 (renewal October 1, 2001) with interest at 8.44%	3,659	3,738
Mortgage maturing September 1, 2009 with interest at 10.25%	82	82
Mortgage maturing November 1, 2013 with interest at prime plus 1% (7% at December 31, 1997)	935	—
Mortgage	—	233
	4,676	4,053

Specific real estate, with a net book value of $4,622,000 (1996 - $3,997,000), has been pledged as collateral for the above debt. The weighted average interest rate, based on year end balances, is 8.2% (1996 - 8.7%).

Principal payments due within each of the next five years, assuming renewal at similar terms, are as follows:

1998	$ 123,000
1999	133,000
2000	145,000
2001	157,000
2002	170,000

13. Future Income Taxes

($000s)	1997	1996
Capital asset book values in excess of tax values	3,647	3,381
Interest and other soft costs deducted for tax purposes	1,967	2,370
Reserve on mortgages due in subsequent years	4,555	2,186
Other	43	26
	10,212	7,963

The timing of payment of future income taxes is dependent upon the timing of development and sale of the related assets and on the timing of the receipt of cash relating to agreements receivable.

14. Share Capital

Authorized

10,000,000	Common Shares
5,000,000	First Preferred Shares, non-voting, issued in series

Issued and Fully Paid

	1997		1996	
($000s)	Number of Shares	Amount	Number of Shares	Amount
Common	3,183,203	6,883	3,214,803	6,718
First Preferred				
- Series 1	—	—	2,500	225
- Series 2	—	—	500	45
- Series 3	—	—	380	40
		6,883		7,028

The First Preferred Shares (Series 1, Series 2 and Series 3) had been issued under the Incentive Share Purchase Plan. These shares were redeemable at the price at which they were issued and were convertible to common shares on the basis of ten common shares for each First Preferred Share. The conversion privilege was exercisable over a five year period commencing from the date of issue of the shares. The exercise in any one year was limited to 20% of the number of shares originally issued together with such numbers of shares in respect of which the privilege might have been, but was not, exercised in any previous year. When a dividend was paid on common shares of the Company, it also had to be paid on the First Preferred Shares at a rate of ten times the per share amount of the dividend paid on the common shares.

During the year, 3,330 (1996 - 1,080) First Preferred Shares were converted to 33,300 (1996 - 10,800) common shares, 50 (1996 - 320) First Preferred Shares were cancelled and no Series 3 First Preferred Shares were issued (1996 - 380).

During the year, 64,900 common shares were purchased by the Company pursuant to the Normal Course Issuer Bid Circular which expires September 14, 1998.

15. Currency Translation Adjustment

($000s)	1997	1996
Cumulative unrealized gain at beginning of the year	504	467
Unrealized gain for the year on the translation of net assets	350	37
	854	504

This adjustment represents the net unrealized foreign currency translation gain on the Company's net investment in its self-sustaining foreign operation.

16. Interest Expense

($000s)	1997	1996
Interest on bank term loan and other indebtedness	406	354
Interest on debt - land	465	539
Interest on debt - commercial properties	937	992
	1,808	1,885
Less interest capitalized	(388)	(334)
Interest expense	1,420	1,551
Amounts included in interest expense which have not been capitalized on projects because their net realizable values do not exceed their capitalized carrying values (Note 1(c))	77	205

Cumulative interest capitalized in land held for future development and land and housing under development at the end of the year is $4,477,000 (1996 - $5,845,000).

17. Joint Ventures

($000s)	1997	1996
Assets	19,583	16,418
Liabilities	10,991	4,888
Revenue	8,156	8,237
Expenses	5,475	6,695
Cash provided by (used in) operating activities	6,770	1,006
Cash provided by (used in) investing activities	(3,406)	(246)
Cash provided by (used in) financing activities	5,060	311

The above include the Company's proportionate share of the assets, liabilities, revenue, expenses and cash flow information of entities which are proportionately consolidated in these financial statements.

18. Segmented Information

Since the Company is involved in several major activities, the financial information supplied in aggregate terms does not provide sufficient information to enable an understanding of the contribution of each activity to the Company as a whole.

In the following schedules, earnings from operations before income tax expense has been calculated for each segment by deducting from revenues of the segment, all direct costs and administrative expenses which can be specifically attributed to the segment. Common costs, which have not been allocated, are the costs of corporate debt and general corporate expenses (such as audit, public relations, corporate donations, directors' fees and senior management expenses, etc.). The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions.

Intersegment transactions are entered into under terms and conditions similar to those with unrelated third parties. Any intersegment sales and the unrealized profits therefrom have been eliminated.

Land

The Land Division is responsible for purchasing and developing land to be sold as residential and commercial lots.

Commercial Properties

The Commercial Properties Division holds investment properties which are leased to commercial tenants and manages certain properties for a fee, on behalf of the legal owner of the property. The division also investigates opportunities to develop new commercial sites which can be held or sold depending on market conditions and the overall intent of management.

Other Operations

This segment includes two 18 hole golf course operations, a 50% interest in a 308 unit manufactured home community and a commercial real estate brokerage company. The capital assets and the ongoing business of the real estate brokerage company were sold at the end of 1995. The company is entitled to a specified fee in 1998.

Housing

Discontinued, see Note 19.

18. Segmented Information continued

($000s)	1997		1996	
INDUSTRY SEGMENTS	Revenue	Earnings	Revenue	Earnings
Land (including interest income)	43,779	14,172	23,923	5,590
Commercial properties	4,279	537	8,695	192
Other operations	3,269	1,032	2,181	353
Corporate interest	357	357	184	184
Intersegment eliminations	(474)	354	(399)	1,478
	51,210	16,452	34,584	7,797
Common costs		(946)		(728)
Earnings before income tax expense		15,506		7,069
Income tax expense		(6,925)		(3,075)
Earnings from continuing operations		8,581		3,994
Loss from discontinued operations		(79)		(140)
Net earnings for the year		8,502		3,854

	Depreciation and amortization		Capital expenditures		Total carrying value of identifiable assets	
	1997	1996	1997	1996	1997	1996
Land	2	2	—	—	91,162	74,564
Commercial properties	333	361	—	—	18,099	23,877
Other operations	192	173	1,262	443	6,287	5,643
Corporate / Common	105	87	52	38	12,489	3,127
Housing (See Note 19)	24	47	—	3	5	4,018
	656	670	1,314	484	128,042	111,229

19. Discontinued Operations

On April 1, 1993 the Company's housing operations were sold to a partnership, Melcor Homes, in which the Company held a two-thirds interest through its wholly owned subsidiary, Melcor Homes Inc. On December 31, 1996 Melcor Homes Inc. purchased the remaining one third interest effectively dissolving the partnership at that time.

During the year, the Company completed its formal plan to discontinue its housing operations which included the completion and sale of all multi-family units and the sale of related capital assets.

The losses from discontinued operations, including the income tax effect, are shown separately in the consolidated statement of earnings and retained earnings.

($000s)	1997	1996
Revenue	6,560	7,668
Expenses	(6,704)	(7,930)
Loss before income tax recovery	(144)	(262)
Income tax recovery	65	122
Loss from discontinued operations	(79)	(140)

Expenses include depreciation of $24,000 (1996 - $47,000) and interest expense of $22,000 (1996 - $197,000). Income tax recovery includes future income tax expense of $30,000 (1996 - recovery of $30,000). Total source of cash from discontinued operations is $2,153,000 (1996 - use of cash $289,000). See Notes 4 and 9 for details on significant assets and liabilities relating to discontinued operations.

20. Earnings per Common Share

The fully diluted earnings per common share calculation assumes the exercise of the conversion privilege of the First Preferred Shares at the beginning of the year.

21. Fair Value of Financial Instruments

The Company believes that the fair value of financial instruments approximates their carrying values.

22. Definitions for Statement of Changes in Financial Position

Development activities is defined as the net of land held for future development before purchases of land, land and housing under development, provision for real estate development costs and debt on land and housing under development.

Change in other operating assets and liabilities is defined as the net of accounts receivable, other assets, current income taxes payable and accounts payable and accrued liabilities.

23. Comparative Figures

Where applicable, the comparative figures have been reclassified to conform to the current year's financial statement presentation.

Management's Responsibility for Financial Reporting

The Annual Report, including the consolidated financial statements, is the responsibility of the management of the Company. The financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies in all material respects. Financial information contained elsewhere in this Report is consistent with the information contained in the financial statements.

Management maintains a system of internal controls which provides reasonable assurance that the assets of the Company, its subsidiaries and joint ventures are safeguarded and which facilitates the preparation of relevant, timely and reliable financial information which reflects, where necessary, management's best estimates and judgements based on informed knowledge of the facts.

The board of directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the consolidated financial statements. The board has appointed an audit committee comprising three unrelated and independent directors to approve, monitor, evaluate, advise or make recommendations on matters effecting the external and internal audits, the financial reporting and the accounting controls, policies and practices of the Company under its terms of reference. The audit committee meets at least four times per year with management and with the independent auditors to satisfy itself that they are properly discharging their responsibilities. The consolidated financial statements and the management discussion and analysis have been reviewed by the audit committee and approved by the board of directors of Melcor Developments Ltd.

Coopers & Lybrand, independent external auditors appointed by the shareholders, have examined the consolidated financial statements and reviewed Management's Discussion and Analysis. Their report as auditors is set forth below.

Auditor's Report to the Shareholders

We have audited the consolidated balance sheets of Melcor Developments Ltd. as at December 31, 1997 and 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Coopers & Lybrand

Chartered Accountants
Edmonton, Alberta
March 2, 1998

LAND DEVELOPMENT DIVISION	Developed Land			Land Held for Future Development		
	Residential Lots	Residential Acres	Commercial Industrial Acres	Preliminary Approval Or Zoned	Raw Land	Total Acres
NORTHERN ALBERTA						
Edmonton	162	6	3	333	66	399
Spruce Grove	74	2	4	238	422	660
Leduc	27	—	—	114	148	262
County of Strathcona	48	—	—	61	108	169
County of Parkland	—	—	—	—	550	550
SOUTHERN ALBERTA						
Calgary	59	—	22	159	187	346
M.D. Rockyview / Airdrie	—	—	—	—	768	768
Lethbridge	33	1	—	289	—	289
CENTRAL ALBERTA						
Red Deer	5	—	—	382	—	382
Blackfalds	—	—	—	—	—	—
ARIZONA						
Phoenix	—	—	—	5	—	5
Tucson	15	—	—	231	—	231
DECEMBER 31, 1997	423	9	29	1,812	2,249	4,061
DECEMBER 31, 1996	365	12	28	1,405	2,260	3,665

COMMERCIAL PROPERTIES DIVISION Location / Name	Year Acquired/ Completed	Rentable Area (sq. ft)	% Leased
OFFICE AND MULTI USE BUILDINGS			
EDMONTON, ALBERTA			
Melton Building	1973	116,500	81
Westcor Building	1978	72,800	77
Melcor Industrial Building	1994	66,200	53
Lee Valley Centre	1995	20,500	100
CALGARY, ALBERTA			
Kensington Road Building	1980	23,800	100
REGINA, SASKATCHEWAN			
Albert Street Building	1979	6,100	66
		305,900	
RETAIL CENTRES			
LEDUC, ALBERTA			
Corinthia Park	1975	11,800	90
REGINA, SASKATCHEWAN			
University Park	1981	41,200	97
		53,000	
		358,900	

UNDEVELOPED SITES		
Edmonton	115,000 sq.ft.	Multi use
Calgary	24,000 sq.ft.	Office or residential tower
	8 acres	Office park / industrial
Regina	64,860 sq.ft.	Retail

BALANCE SHEET ($000s)	1997	1996	1995	1994	1993
ASSETS					
Cash and short term deposits	**12,080**	1,905	3,299	8,072	1,740
Accounts receivable	**3,692**	2,001	1,632	1,660	2,649
Agreements receivable	**21,850**	18,404	11,002	15,739	15,283
Land and housing under development	**25,426**	29,875	36,511	42,721	37,623
Land held for future development	**43,271**	37,778	39,040	36,927	37,364
Commercial properties	**14,741**	14,953	15,679	14,992	16,097
Other assets	**6,982**	6,313	6,081	3,245	3,301
	128,042	111,229	113,244	123,356	114,057
LIABILITIES AND SHAREHOLDERS' EQUITY					
Accounts payable and accrued liabilities	**6,635**	3,231	2,753	5,674	5,688
Current income taxes payable	**999**	969	1,008	5,182	—
Bank term loan	**3,000**	896	3,043	3,557	6,904
Provision for real estate development costs	**5,338**	6,110	7,189	9,922	7,062
Debt on land and housing under development	**6,279**	6,507	6,229	9,852	8,543
Debt on land held for future development	**7,902**	3,858	5,707	5,694	4,695
Debt on commercial properties	**9,502**	10,306	10,939	10,644	13,181
Debt on other assets	**4,676**	4,053	3,255	274	285
Future income taxes	**10,212**	7,963	8,388	9,012	9,698
Share capital	**6,883**	7,028	7,017	7,033	7,033
Retained earnings	**66,616**	60,308	57,716	56,512	50,968
	128,042	111,229	113,244	123,356	114,057

STATEMENT OF EARNINGS ($000s)	1997	1996	1995	1994	1993
Revenue	50,589	33,964	21,928	34,750	30,421
Cost of sales	29,785	22,096	12,306	20,988	17,242
	20,804	11,868	9,622	13,762	13,179
Interest revenue	621	620	749	888	674
Interest expense	(1,420)	(1,551)	(1,559)	(1,575)	(2,042)
General and administrative expenses	(4,499)	(3,438)	(4,030)	(4,202)	(4,091)
Earnings from operations	15,506	7,499	4,782	8,873	7,720
Gain on sale of commercial properties	—	—	—	2,322	62
Asset valuation adjustment	—	(430)	—	(400)	—
Earnings from continuing operations before income tax expense	15,506	7,069	4,782	10,795	7,782
Income tax expense	(6,925)	(3,075)	(2,272)	(4,588)	(3,545)
Net earnings from continuing operations	8,581	3,994	2,510	6,207	4,237
Loss from discontinued operations	(79)	(140)	(116)	70	258
Net earnings for the year	8,502	3,854	2,394	6,277	4,495

Statistical ($)		1997	1996	1995	1994	1993
Earnings per share	- basic	2.64	1.20	0.74	1.98	1.46
	- fully diluted	2.64	1.19	0.74	1.93	1.38
Cash flow per share	- basic	3.54	1.41	0.76	1.38	2.86
	- fully diluted	3.54	1.40	0.75	1.34	2.69
Number of shares	- year end (000s)	3,183	3,215	3,204	3,197	3,131
Shareholders equity	- per share-fully diluted	23.09	20.73	19.93	19.55	17.85
	- total ($000s)	73,499	67,336	64,733	63,545	58,001
Dividends	- per share	0.50	0.40	0.30	0.35	0.25
Share price range		18-14.05	14.9-10	11-9.25	12.5-9.25	14-10

($000s)	1997	1996	1995	1994	1993
Land Development Division					
Revenue	43,432	23,645	15,786	26,460	25,431
Cost of sales	(26,775)	(16,355)	(9,529)	(17,290)	(15,015)
	16,657	7,290	6,257	9,170	10,416
Interest revenue	347	278	599	730	674
Interest expense	(222)	(223)	(338)	(162)	(169)
	16,782	7,345	6,518	9,738	10,921
Administrative expenses	(2,610)	(1,755)	(1,965)	(2,103)	(1,820)
Earnings	14,172	5,590	4,553	7,635	9,101
Commercial Properties Division					
Commercial operations	3,179	3,241	3,290	3,935	3,777
Land sales	1,100	5,454	1,122	3,521	—
Total operating revenue	4,279	8,695	4,412	7,456	3,777
Operating expenses	(1,530)	(1,544)	(1,558)	(1,799)	(1,733)
Interest expense	(937)	(992)	(1,027)	(1,089)	(1,301)
Cost of land sales	(750)	(4,986)	(785)	(2,952)	—
Total operating costs	(3,217)	(7,522)	(3,370)	(5,840)	(3,034)
Earnings from operations	1,062	1,173	1,042	1,616	743
Gain on sale of commercial property	—	—	—	1,948	62
	1,062	1,173	1,042	3,564	805
Administrative expenses	(192)	(190)	(198)	(226)	(167)
Depreciation	(333)	(361)	(374)	(448)	(416)
Asset valuation adjustment	—	(430)	—	(400)	—
	(525)	(981)	(572)	(1,074)	(583)
Earnings	537	192	470	2,490	222

($000s)	1997	1996	1995	1994	1993
Other Operations					
Revenue	3,269	2,181	2,227	2,088	2,573
Cost of sales	(1,443)	(1,088)	(1,243)	(1,056)	(1,626)
	1,826	1,093	984	1,032	947
Interest expense	(398)	(379)	(215)	(144)	(134)
Administrative expenses	(204)	(189)	(584)	(542)	(487)
Depreciation	(192)	(173)	(158)	(80)	(160)
Earnings	1,032	352	27	266	166

Discontinued Operations					
Net earnings (loss)	(79)	(140)	(116)	70	258

Corporate Information

Directors

William D. Grace (1) (2)
Corporate Director
Edmonton, Alberta

Harry Hole (2)
President
Frobisher Developments Ltd.
Edmonton, Alberta

W. Garry Holmes
Corporate Director
Edmonton, Alberta

Lou D. Hyndman, Q.C. (1) (2)
Partner
Field Atkinson Perraton,
Barristers & Solicitors
Edmonton, Alberta

Andrew J. Melton
Partner
Avison Young Commercial
Real Estate
Calgary, Alberta

Timothy C. Melton
Chairman & Chief Executive Officer
Melcor Developments Ltd.
Edmonton, Alberta

Robert Stollery (1) (2)
Corporate Director
Edmonton, Alberta

Ralph B. Young
President
Melcor Developments Ltd.
Edmonton, Alberta

Committees
(1) Audit
(2) Corporate Governance and Compensation
(3) Management

Corporate Office

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Officers

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Ralph B. Young (3)
President

Michael D. Shabada (3)
Vice-President, Finance & Secretary

Brett A. Halford (3)
Vice-President, Administration

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W. Peter Daly
Vice-President

Calgary Region
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David J. Poppitt
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Guy A. Pelletier
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Bill Hodgson
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Ian D. MacLeod
Manager

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Pierre M. Beauchemin
Pro / Manager

Lewis Estates Golf Course
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(403) 489-4653
Bryan A. Copp
Pro / Manager

Watergrove Manufactured Home Community
400, 99 Arbour Lake Road
Calgary, Alberta T3G 4E4
(403) 547-0200
Doug G. Alton
Manager

Other Information

Share Transfer Agent
CIBC Mellon Trust Company
Calgary & Toronto

Stock Exchange Listing
The Toronto Stock Exchange (Stock symbol: MRD)